# EXHIBIT C

# PRELIMINARY TRANSCRIPT

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## LEH - Q3 2008 Preliminary Lehman Brothers Holdings Inc. Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Shaun Butler**
*Lehman Brothers - IR Director*

**Dick Fuld**
*Lehman Brothers*

**Ian Lowitt**
*Lehman Brothers - CFO*

## PRESENTATION

**Operator**

Good morning and welcome to Lehman Brothers investor conference call. At this time all participants are in a listen-only mode, and during the question-and-answer session please press star one on your touch tone phone. Today's call is being recorded, and if you have any objections you make disconnect at this time.

I would now like to turn the call over to Ms. Shaun Butler, Director of investor relations. Ms. Butler, you may begin.

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**Shaun Butler** - *Lehman Brothers - IR Director*

Thank you for joining us this morning. Before we begin, let me point out that this presentation contains forward-looking statements. These statements are not guarantees of future performance; they only represent the firm's current expectations, estimates and projections regarding future events. The firm's actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any such forward-looking statements. These forward-looking statements are inherently subject to significant business, economic and competitive uncertainties, and contingencies, many of which are difficult to predict and beyond our control.

For more information concerning the risks and other factors that could affect the firm's future results, financial condition, see risk factors in management's discussion and analysis of financial condition and results of operation in the firm's most recent annual report on form 10K and most recent quarterly report on form 10-Q as filed with the SEC.

The firm's financial statements for the third fiscal quarter of 2008 are not finalized until they have filed in its quarterly report on form 10-Q for the third fiscal quarter of 2008. The firm is required to consider all available information through the finalization of its financial statements, and the possible impact on its financial condition and results of operations for the reporting period, including the impact of such information on the complex and subjective judgments that will be discussed on today's call, as well as estimates the firm made in preparing certain of the preliminary information included in these remarks.

Subsequent information or events may lead to material differences between the preliminary results of operations described in these remarks, and the results of operations that will be described in the firm's subsequent earnings release, and between such subsequent earnings release and the results of operation described in the firm's quarterly report on form 10-Q for the third fiscal quarter of 2008. Those differences may be adverse. Listeners to these remarks should consider this possibility.

This presentation contains certain non-GAAP financial measures relating to these -- information relating to these financial measures can be found in the mornings per limiter in earnings press release which has been posted on the firm's website, www.Leman.com and filed with the SEC in a form 8K available at www.SEC.gov.

At the end of the call we will open this session to Q&A, and Bart McDade will be joining us for that portion of the call. I will now turn the call over to Dick Fuld.

**Dick Fuld** - *Lehman Brothers*

Shaun Butler, thank you.

I want to thank all of you for joining us today on what's clearly short notice.

In light of these last two days, this morning we released our quarterly results. We are also announcing several important financial and operating changes that amount to a significant repositioning of the firm, including aggressively reducing our exposure to both commercial real estate and residential real estate assets. These will accomplish a substantial de-risking of our balance sheet and reinforce the emphasis on our client-focused businesses.

They are also meant to mitigate the potential for future write-downs, and to allow the firm to return to profitability and strengthen our ability to earn the appropriate risk-unadjusted equity returns.

I will discuss the strategic actions we are taking to restructure and reposition the firm, and then the rationale for each. After my comments, EN will discuss the mechanics of various transactions, our results for the quarter, our remaining asset exposures at the quarter end, and pro forma for today's announcements and our current capital and liquidity positions.

This quarter's loss was mostly due to sales and write-downs of our residential and commercial real estate assets (technical difficulty) extent, a slower business environment. Since the second quarter, there was a significant additional deterioration in the credit markets, and with a disproportionate impact on the legacy asset classes where we had remaining exposures.

In addition, part of the move to more quickly exit the real estate positions further added to the losses. As you know over the past few quarters our plan was to protect our shareholders, our capital and our franchise by maintaining strong liquidity and exiting our real estate exposures, in a measured way over time.

Losses created by these concentrated legacy assets have clouded the underlying value of our franchise. In addition, there's been intense public scrutiny which cost us significant distractions among our clients, our counterparties, and also our employees.

When you look at our segment performance, investment banking, fixed income and equity's at IMD, a market share and how we are winning mandates, you'll see that our client relationships remain strong.

Now, I spent a great deal of time in this quarter with our clients, our creditors and our employees, and while they continue to stand with us we nevertheless cannot put the strength of our franchise and their continued trust at risk.

The set of decisions announced today will best protect the core client franchise, and create a very clean, we could balance sheet. So today we are taking a number of necessary actions.

Here's the summary -- we put a concrete plan in place to exit the vast majority of our commercial real estate. We are reducing our residential and leveraged loan exposures down to appropriate operating levels.

We are in the final stages of raising capital, with sale of a majority stake in IMD. Strengthening our capital base -- excuse me, as we strengthened our capital base in June, protected our liquidity and are cutting our dividend.

We appreciate our human capital and product depth, expense-based to these changing markets.

Lastly, we implemented a series of management changes, some of which you saw in the last couple of days.

Taken together, these actions have quickly de-risked and resized the firm. Let me go through each in more detail.

Today we announced a plan to separate a vast majority of our commercial real estate assets from our core business, by spinning off those assets to our shareholders and to an independent, publicly traded entity which will be adequately capitalized. The spinoff improves our balance sheet while preserving value for our shareholders. The spinoff entity will be able to manage its assets for economic value maximization over a longer time horizon, given the fact that it will not be marked to market entity but rather use held-to-maturity accounting.

This will preserve economic value for our shareholders. We also significantly reduced the rezzy mortgage and acquisition finance exposures. In addition to sell down of rezzy over the course of this quarter, we are finalizing with BlackRock a bulk sale of our UK residential assets (technical difficulty) sale within the next few weeks. This will bring our total residential exposures down by approximately half since the second quarter. These remaining rezzy assets have been significantly marked down, and are now at levels that apply default and cumulative loss rates well above the fundamental expectations.

Ian Lowitt will provide further transparency here, including detail on how we are marking the remaining positions.

Next, let me talk about our investment management division. With a more thorough review of this business and reached out to third parties to validate the value proposition that we've been building. While IMD continues to have a strategic connection to some of our other businesses, it adds diversification value to our earnings, we believe that we can capture capital benefits of the partial monetization while also continuing to build value through a series of commercial partnering agreements. We are in the final stages of selling a majority stake in our IMD business.

We've been running a process with selected strategic and financial investors, and we expect to reach a definitive agreement on a transaction that appropriately values this attractive asset and maintains our strategic relationship.

This will serve two primary purposes -- 1, raise tangible equity capital for the firm on a cost-efficient basis; and two, maintain strategic ties to the business through commercial arrangements and a large minority stake which will continue to give us a significant amount of IMD's earnings into our income.

Next, we are cutting our annual dividend to $0.05 per share to preserve capital, given the near-term operating environment.

We ended the quarter with more tangible equity then we started, and at a net leverage ratio of 10.6 versus 12.1 at the end of the second quarter. We'll think about future capital by looking at the total equity capital raised from IMD, and by ensuring the core Lehman Brothers after the commercial real estate spinoff has proper tangible capital to support our client franchise.

Taking all this together, the spinoff of our commercial real estate assets, the significant reduction in our residential and acquisition finance exposure, monetization of the majority stake in IMD, dividend cut, we will have what we believe to be a strong and clean balance sheet which will allow us to focus on supporting our core client businesses.

In addition to all of us, we remain committed to examining all strategic alternatives to maximize shareholder value.

This firm has a history of facing adversity and delivering. We have a long track record of pulling together when times are tough and then taking advantage of local opportunities.

I believe as a firm we've made (technical difficulty) choices and we've put the changes in place. We are on the right track to put these last two quarters behind us. We will not be distracted from our (technical difficulty) which is protecting and building our client franchise. Today's strategic actions, each of which is significant in its own right, taken together as a whole significantly reduces our remaining risks and greatly improves our ability to create value for our shareholders.

So I want to thank our clients, thank our counterparties for their tremendous support during this period. Today we've taken definitive steps and have put in place a credible plan.

Ian, let me turn it over to you now.

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**Ian Lowitt** - *Lehman Brothers - CFO*

Thanks, Dick. During the past quarter we experienced significant market pressure and scrutiny around our legacy residential and commercial real estate assets, and more recently, speculation around our various strategic alternatives. In the last two trading days, this speculation has intensified such that it became prudent to release are results and clarify our restructuring plan early, recognizing the need to move quickly and decisively to resolve the overhang auto business.

Importantly, as we will discuss today we ended the third quarter with a capital position and leverage ratio stronger than the second quarter. Total shareholder equity increased 8% to 28 billion; we reduced net leverage to 10.6 times from 12.1 times, and our tier 1 capital ratio is estimated at approximately 11% versus 10.7 last quarter.

Today, I shall walk you through our restructuring around commercial real estate, residential mortgages, other asset exposures, and our investment management division. And then I will review our results for the quarter along with our current liquidity and our operating model going forward.

I will start with our commercial real estate initiatives. We face a specific concerns with respect to our commercial real estate exposure, which as you know is comprised of a large diversified portfolio of individually underwritten assets. As of the close of the third quarter, our commercial mortgage and real estate held-for-sale positions totaled 32.6 billion, down 18% from the 39.8 million at the end of the second quarter. We have successfully sold down a significant amount of assets over the past few quarters. In order for us to realize fair value, buyers require lengthy asset-specific diligence on each position.

Despite our success in reducing assets over the past few quarters, the current strategy does not accomplish the disposition of assets quickly enough. To accomplish the goals of rapidly separating us from the legacy commercial assets, and enabling our shareholders to retain the value of this portfolio, we will be spinning off the commercial real estate photo from our remaining business through the formation of real estate investments global or REI global. We expect to spin REI Global to our existing shareholders as an independently managed and traded public company in the first quarter of 2009.

This transaction will separate for Lehman Brothers from these legacy assets, and importantly it will enable shareholders to retain the upside in this high quality asset portfolio, or the assets will be held to maturity or sold over time in a disciplined manner to optimize value.

Moving on to execution, approximately $25 billion to $30 billion of commercial assets are expected to be transferred into REI Global. The exact amount of assets transferred will be determined after taking into account activity in this portfolio until the spinoff is completed. We expect continued paydown and some additional this positions over this period.

Pro forma for the transaction, our remaining commercial mortgage and real estate held for sale positions in core Lehman Brothers are expected to be approximately 5 billion. The portfolio we expect to contribute to REI Global is a highly diversified across regions and asset types. By value, approximately 57% are in the Americas, 26% in Europe, and 17% in Asia.

Approximately 58% our debt positions, 26% are equity positions, and 15% are securities.

No property type represents more than 22% of the portfolio, with multifamily at 22%, and office and 18%. And lastly, we also intend to include our SunCal and Archstone positions in this portfolio. This folio is currently marked at a weighted average price of 85.

All assets will be transferred to REI Global and are carrying values as of the time of the split. Our commercial mortgage positions are carried at mark to market, reflecting all current market pricing information for each asset. The real estate held-for-sale

portfolio, consisting of assets across the capital structure, is looked at lower of cost or market as we take write-downs on this book, but do not reflect market value gains until a sale event occurs.

REI Global will account for its assets on a held-to-maturity bases and will be able to manage the assets without the pressure of mark to market volatility. REI Global will not be forced to sell assets below what it believes to be there intrinsic value.

In terms of capitalizing REI Global, Lehman Brothers will contribute equity equal to 20% to 25% of asset value and provide debt financing for the 75% to 80% of the total. So it will be capitalized at approximately 3 to four times debt to book equity, which is consistent with other publicly traded real estate entities.

The firm will spin its entire equity interest in REI Global to Lehman shareholders. Debt financing provided by Lehman Brothers will be liquidity-neutral to Lehman as we currently find these assets with long-term capital. To the extent we syndicate a portion of the debt, this will have a positive impact on our liquidity.

In aggregate, this pool of assets generates significant cash flow. When combined with the normal course of asset sale at maturity these cash flows will be dedicated to paying down debt, managing the assets, and returning cash to REI Global shareholders over time. Based on the expected assets to be contributed to REI Global, the portfolio is projected to generate cash flows or interest income, pay down, debt repayment, equity distributions, and asset sales.

We estimate cash flow for debt paydown of approximately 5 billion per year over the next three years. We expect rapid debt paydown that REI Global, with debt to total assets decreasing from 75% to 80%, to approximately 50% within four years.

Initially, REI Global expects to pay a modest annual dividend, but once leverage reaches a certain threshold, cash flows may allow for additional distributions to equity.

We have conducted extensive stress tests on the portfolio, and are confident that REI Global has sufficient equity even in severely stressed scenarios. For our stress tests, we identified two year time periods from 1990 to 2006 with the largest decline in property values for each property type in every geographic market where REI Global will own material commercial real estate assets, and applied these declines to our current portfolio.

We believe these stress tests are conservative for several reasons. First, we are applying price declines to already marked down positions, and applying worst-case scenarios for all regions and property types simultaneously.

Second, we assume we sell our assets at the low point of the stress scenario. And finally, our sample timeframe includes periods of severe commercial real estate stress when there were significantly greater oversupply than the current environment.

We applied the stress test before any deleveraging of the portfolio which, given the expected cash flows, should be delevering quite rapidly. Even under this extreme stress test, REI Global will be adequately capitalized and is not expected to result in impairment to the debt.

Following the spinoff, our shareholders will hold shares of both Lehman Brothers and REI Global. Importantly, these actions will enable our shareholders to benefit from the intrinsic value of our commercial real estate portfolio. As part of an independent company without the need to mark to market, assets may be monetized in an orderly manner over time, with more negotiating leverage and at prices which maximize returns.

We've resolved all material execution obstacles and are highly confident that we can complete this transaction in the first quarter of 2009.

Moving onto our efforts on the residential front, during the quarter we moved quickly to bring our residential mortgage exposures down significantly, from 24.9 billion in the second quarter, to 13.2 billion, a reduction of 47%. This includes a reduction of approximately 4 billion in UK residential assets that we are formally engaged with BlackRock to sell.

Please note that since the BlackRock transaction will be completed after the close of the third quarter, it will be reflected in our fourth-quarter numbers. Excluding these sales, our residential mortgage position as of the third quarter was 17.2 billion, a 31% reduction versus last quarter.

After these dispositions, our residential mortgage inventory will be 13.2 billion, of which approximately 32% of the assets are in less-risky asset classes, including 1.6 billion of Alt-A servicing rights, and 600 million of Alt-A AAA I/O securities, both of which have negative correlations to deteriorating markets. And 600 million of reverse mortgages that have an LTV of approximately 39%, 500 million in Asia, and approximately 900 million of assets across the US portfolio in vintages 2005 and earlier.

The rest of assets -- and this includes the 900 million of the 2005 and earlier vintages -- are as follows. 3.7 billion of additional Alt-A exposure, marked at an average of 39 versus 63 last quarter; 1.6 billion of subprime and second-lien exposure, marked at an average of 34 versus 55 last quarter; 3.6 billion of European exposure, marked at an average of 69 versus 83 last quarter; 500 million of remaining ABS CDO assets, marked an average of 29 versus 35 last quarter; and 500 million of additional other US exposure which is marked at an average of 45 versus 40 last quarter.

Overall, the US residential book at a weighted average price of 59 at the beginning of the third quarter, and now has a weighted average price of 39, a decline of 20 points.

During the quarter we traded significant US residential assets, with sales of 5.5 billion and purchases of 3.2 billion, for total trading activity of 8.7 billion. This market activity gives us confidence in the accuracy of our marks as of the third quarter.

We'd like to note that we believe current market prices reflect an exceptionally conservative valuation outlook for the US residential market. At current prices, are US residential portfolio generates a 12% yield or approximately LIBOR plus 800. If approximately 50% of the loans default and average recovery rates are only 40%. This base case assumes national home prices drop 32% peak to trough, versus 18% today, with California down 50% versus 27% to date.

For a 0% yield and only principal repayment, over 80% of the borrowers would need to default with an average 35% recovery rate.

In our Alt-A portfolio, the assets would generate a yield of LIBOR plus 1000, with 44% defaults, LIBOR plus 100 with 63% defaults, and a 0% yield at 79% of default, each with a 40% to 45% recovery rate.

The current 60-day for the including real estate owned his 18% on this portfolio, so defaults would need to be 2.5 times LIBOR plus 1000 case, 3.6 times for the LIBOR plus 100 case, and 4.5 times for the 0% yield case.

In our nonprime portfolio, the assets would generate a yield of LIBOR plus 1100 with 59% defaults, LIBOR plus 100 with 76% defaults, and a 0% yield at 85% defaults, each with a 20% to 30% recovery rate assumption.

The current 60-plus day the link at the rates including real estate owned is 23% on this portfolio, so defaults would need to be 2.5 times the current to link into rates for the LIBOR plus 1100 case, 3.2 times for the LIBOR plus 100 case, and 3.7 for the 0% yield case. So current prices imply extremely severe additional deterioration and housing.

Our pro forma remaining 13.2 billion of residential assets are diversified across product type and region, with about 32% of the exposure in servicing, AAA I/O's, reverse mortgages, Asian exposure, and 2005 and earlier vintages.

We plan to reduce this position somewhat over the coming quarters, maintaining a balance sheet necessary to support the market-making opportunities. Bid/ask spreads continued to be attractive, with multiple distinct business opportunities across secondary and distressed trading, servicing and NPL management, as well as client advisory.

Regarding other exposures, our other asset-backed positions were reduced by 29%, from 6.5 billion to 4.6 billion during the quarter, and we reduced our acquisition finance exposure by 42%, from 18 billion to 10.4 billion, which includes a 38% decline in our high yield acquisition finance exposures from 11.5 billion to 7.1 billion. Pro forma for the BlackRock sale and commercial real estate spinoff, our aggregate exposure to residential and commercial mortgage assets, other asset-backed and acquisition finance will be reduced from 89 billion at the end of the second quarter, to approximately 30 billion to 35 billion, so very significant progress in moving the legacy assets and creating a clean balance sheet for core Lehman Brothers going forward.

Turning to the investment management division, today we announced our intent to sell a majority stake of a subset of our investment management business. The subset includes our asset management, private equity and wealth management businesses, but excludes our middle-market institutional business which would will be folded into capital markets, and our minority stakes in third-party and hedge fund managers. This transaction has attractive capital and operating characteristics.

From the capital front, we will be receiving significant proceeds at closing. Additionally, goodwill on our books related to the Newberger Neuberger business will be eliminated, resulting in an estimated increase of over 3 billion in our tangible book value and tier 1 capital.

Following a transaction closing, IMD operating results will not be consolidated. given that we will be retaining a meaningful interest in a subset of IMD, as well as 100% of the middle-market institutional business, and our minority investments in hedge fund managers, the impact on our pretax earnings is estimated to be modest.

On a fiscal 2007 basis, the pro forma impact would have been less than 5% of the firm's pretax earnings.

After closing, IMD will have an autonomous governance structure from our investment banking and capital market divisions. However, IMD will remain an important strategic platform for the firm.

The business will continue to operate under the Lehman Brothers and Neuberger Berman brands. Clients will continue to be able to access all of the capabilities of the firm across operating units.

We are in advanced discussions with a number of potential partners for the IMD business, and expect to announce the details of the transaction in due course.

We realize that we have given you a lot to absorb with regard to the restructuring, but hopefully we been able to clarify some of the mechanics and rationale behind our initiatives.

To help put our actions into perspective, taking into account all the transactions we have announced today, our balance sheet exposures will be reduced to the following levels -- approximately 5 billion of commercial assets, approximately 13 billion of residential assets, less than 5 billion of other asset-backed positions, and approximately 10 billion of acquisition finance facilities, which includes 7 billion of high yield facilities.

We believe that the Lehman of early 2009 will be significantly de-risked financial institution.

To reiterate, these actions represent the major components of the restructuring which, a once complete, will allow Lehman to emerge as a clean company and be able to thrive away from its legacy assets. This will allow us to refocus our efforts on growing our client-facing franchise, additionally, core Lehman Brothers can be more fairly valued in the public markets, and we will be better able to restore the confidence of our key stakeholders including equity investors, debt investors, clients, counterparties and employees.

We will be discussing core Lehman Brothers in greater detail in the section on our operating model.

Turning to our capital position, despite our third-quarter loss, we ended the quarter with a larger equity base in greater couple ratios versus the prior period, driven by our June capital raise and a decrease in risk-weighted assets. As of June 31, total stockholder equity was approximately 28 billion, up 8% from the second quarter, and our long-term capital into the quarter at 143 billion.

During the quarter we reduced our gross assets by approximately 6%, from 639 billion to approximately 600 billion, and we reduced our net assets by approximately 5%, from 328 billion to approximately 311 billion. We ended the quarter with gross leverage of 21.1 times, compared to 24.3 times as of the second quarter, and our net leverage was 10.6 times versus 12.1 times last quarter.

We estimate that are tier 1 capital ratio under the CSC regulatory framework will be approximately 11%, and our total capital ratio between approximately 16.5 % and 17% as of August 31, compared to 10.7% and 16.1% at the second quarter, respectively.

Our third-quarter tier 1 ratio is well above our target level, and the total capital ratio tier 1 ratio is well in excess of the 10% minimum regulatory threshold.

Book value per share declined this quarter to 27.29, driven by the June capital raise and a third-quarter loss. Additionally, the sale of a majority stake in the part of our IMD business, and the reduction in our annual common stock dividend from $0.68 a share to $0.05 a share for an annual saving of 450 million, are both intended to give us greater capital flexibility going forward.

Turning to the third quarter, we posted our second consecutive quarterly loss with net revenues of negative 2.9 billion, and net loss of 3.9 billion, and a diluted loss per share of $5.92. The loss was driven primarily by gross mark to market adjustments of 7.8 billion, including a 5.3 billion gross write-down on residential mortgage assets, 1.7 billion related to our commercial mortgage and real estate portfolio, 600 million on other asset-backed assets, and 200 million on our acquisition finance facilities.

Gross mark to market adjustments were offset by 800 million of hedging gains during the quarter, and 1.4 billion of debt valuation gains resulting in 5.6 billion in net write-downs. We also experienced approximately 716 million of principal losses during the quarter, including approximately 380 million in fixed income, 320 million in equities, and 16 million in IMD.

Gross write-downs of 5.3 billion on residential assets in the third quarter were driven by market factors, including rising delinquencies and loss expectations, supply overhang concerns, and a continued difficulty -- difficult financing environment. As well as our own accelerated selling activity during the period.

Net mark to market adjustments on residential assets totaled 4.9 billion, as hedges offset only 8% of gross write-downs. The majority of our write-downs were in Alt-A, driven by an increase in Alt-A delinquencies, and loss expectations which were specific to Alt-A prices and did not affect the performance of our hedges. Unfortunately there is no direct hedge for Alt-A assets, as there is in subprime with ABX.

Our strategy around hedging is to break the exposures into spread and HBA credit exposure. We use ABX to hedge the HPA exposure, and a combination of CDX, CMBS, single name financial CDS, and swaps to hedge the spread exposure. Our HPA hedges were ineffective as Alt-A prices dropped 20 to 25 points during the quarter, while ABX AAA on average dropped eight points and ABX subs -- that's AA through triple B-, dropped only four points.

And our spread hedges were also ineffective, as residential credit sectors widened significantly by 200 basis points to 600 basis points while other spread sectors were more range bound. Our corporate hedges, for example, widened only 35 basis points.

This difficulty in hedging and associated basis risk supported our decision to more rapidly decrease our residential assets this quarter, as our best hedges to reduce absolute exposure.

In the commercial market, gross mark to market adjustments totaled 1.7 billion, compared to 900 in the second quarter and 1.4 billion in the first quarter of 2008.

Real estate values continued to come under pressure during the third quarter, mainly due to the weakening economy and the lack of liquidity in the market. Our write-downs are driven by higher discount rates, changes in our exit capitalization rate assumptions, as well as credit events related to certain properties.

On a net basis, commercial write-downs for the quarter totaled 1.6 billion.

Excluding net mark to market adjustments, debt-valuation gains and principal losses, our remaining revenues were 3.5 billion, implying positive pretax results of approximately 600 million and extremely trying circumstances.

In investment banking, revenues of 611 million or in line with a slower overall banking market, where estimated global market fees are down 25% on an annualized basis, year over year.

While underwriting activity was depressed across the debt and equity markets, M&A activity remained solid. We posted revenues of 634 million in investment management. Our AUM was slightly down at 273 billion, versus 277 billion in the second quarter, as market depreciation more than offset net inflows. However, management fees remain stable, quarter over quarter.

Total IMD revenue were down sequentially, driven by lower transaction activity, in private investment management, and the smaller contribution from our stakes in alternative asset management.

During the third quarter, we recorded our loss of 60 million associated with our investments and hedge fund managers, compared to a gain of approximately 70 billion in the second quarter. In capital markets we reported revenues of negative 4.1 billion, excluding net mark to market adjustments, debt valuation gains and losses on principal investments, are run-rate revenues in capital markets were 2.2 billion, or down 15% versus 2.6 billion in the second quarter on a comparable basis.

Despite a difficult operating environment in the third quarter, our underlying client franchises remained solid. On a year-to-date basis, Capital Market client revenues, the internal operating metric by which we track client activity, were up 11% versus the first nine months of last year. And while third-quarter client revenues were down 19% sequentially, this period's results are comparable to our average quarterly client revenue for full-year 2007.

In fixed income, capital markets, the run-rate revenues were flat versus the second quarter at 1.8 billion. During the quarter we had strong trading revenues in rates, foreign exchange and credit products. Overall activity levels remained robust year to date, with particular strength in commodities, foreign exchange, securitized product and credit.

In equity capital markets, run rate revenues were approximately 425 million, down 43% versus 750 million last quarter. While client revenues were down approximately 22%, run-rate revenues were impacted by trading losses and volatility products.

Cash equities and flow volatility activity generally remained strong in the US this quarter, with more pronounced declines in Europe and Asia. Structured volatility activity remained depressed across regions. Given the weakening equity market worldwide.

Prime services revenues and equities were also down from last quarter, mainly reflecting continued deleveraging among hedge fund clients, and diversification of balances across brokers and not a loss of client.

Year to date, the prime services business was well ahead of 2007 revenues.

With respect to expenses, given the continued difficulty -- difficult overall market environment, we remain diligent on cost initiatives, with notable development during the quarter. We've reduced headcount by approximately 1500 positions since the beginning of the third quarter, in discretionary corporate areas, and those businesses which we believe are in secular decline.

We expect small reductions in staffing and our client-facing businesses, which should bolster our revenue capacity once we reach a more stable part of the cycle.

Non-personnel expenses were 971 million in the third quarter, down 11% from the 1.1 billion in the second quarter. We've identified a set of near-term cost reduction opportunities totaling 250 million in annualized cost savings before any additional impact from potential divestitures.

Also we expect these savings in future quarters, it is important to note that with our third-quarter revenue run rate of 3.5 billion and third-quarter expenses of 2.9 billion, we are pretax-positive for the quarter excluding the markdowns, debt valuation gains, and principal losses.

I will now provide an update on our liquidity position, which remains very strong.

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**Thomson Editor**

COMPLETE TRANSCRIPT TO BE POSTED SOON

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